

CHAPTER 5: PROCESSING INITIAL APPLICATIONS — STAGE 2

5.1 INTRODUCTION

Once the Loan Originator and loan review committee have gone through the steps described in Chapter 4 to score, rank, and submit NOFA responses to the National Office for selection, the next step is to invite those respondents selected by the National Office for further processing to submit initial applications. Initial applications provide more detailed information about the proposed housing to further establish the project's eligibility and feasibility.

This chapter covers Stage 2 of the loan origination process. At this stage, Loan Originators invite selected NOFA respondents to submit initial applications, review and evaluate initial applications for eligibility and feasibility, and select the applicants who will be invited to submit final applications. The Loan Originator must also order an appraisal to be done on each application to establish maximum loan level. Sections 1 and 2 describe the submission and processing of initial applications and Section 3 details the underwriting process the Loan Originator will use to evaluate the application.

This chapter explains what the Loan Originator must include in the initial application package that is sent to selected NOFA respondents and the procedures for reviewing the initial applications submitted. It discusses applicant eligibility, project eligibility, and project feasibility requirements, and describes the procedures that Loan Originators will follow to underwrite the project and decide whether an initial application goes on to the next stage — that of final application. The procedures for Stage 3 of the loan origination process, in which final applications are invited and evaluated, are discussed in Chapter 6.

SECTION 1: OVERVIEW AND INVITING INITIAL APPLICATIONS

5.2 OVERVIEW OF STAGE 2, INITIAL APPLICATIONS

During Stage 2 of the loan origination process, the Loan Originator sends out initial application packages to the NOFA respondents selected by the National Office with clear instructions as to what information is needed from the loan applicant and the due date of the information. The initial applications are due from the loan applicants within 60 days. The Loan Originator has 30 days from the submission deadline in which to review the initial applications.

The Loan Originator reviews the initial application to determine eligibility

Key Origination Activities in Stage 2

- Invite submission of initial application
- Conduct preliminary meeting with applicant
- Perform site visit
- Order the appraisal
- Order credit reports
- Check for prohibited conditions
- Send letter to interim lender confirming terms
- Conduct underwriting analysis
- Run Sources and Uses Comprehensive Evaluation (SAUCE)
- Begin to work with partners in a participation loan
- Send approved special property type applications to National Office for review
- Request final applications/reject initial applications

and feasibility of the proposed project and conducts the underwriting process of the loan, which includes a site visit. While the environmental review process begins in Stage 2, it may not be completed until Stage 3. Initial applications that are determined to be eligible and feasible and which represent prudent use of Agency funds are invited to move to Stage 3 of the loan origination process.

Loan Originators will be assisted during Stage 2 by the loan review committee and other key staff, such as the State Architect and Engineer. If the initial application is for a participation loan, the Loan Originator will at this stage begin working closely with the entity providing other funds or financing. Chapter 7, Participation with Other Funding Sources, provides additional information about processing participation loans. Approved special property type applications, such as those for congregate housing, must be forwarded to the National Office for their review. Chapter 12, Special Property Types, provides additional details on special property types.

5.3 CONDITIONAL LETTERS OF COMMITMENT

Loan applicants who are requesting a participation loan from the Agency may request a conditional letter of commitment from the Agency to help them obtain other financing or funding. Such a letter is often requested from the applicant by other lenders as a sign of the commitment of funds from the Agency and assurance that the Agency will actually make the loan and the project will go forward.

The Agency is unable to provide such a letter to the applicant until the environmental review has been completed. However, borrowers may be helped by the letter sent to them by the Agency inviting them to submit the initial application. This letter states the loan funds that the Agency has available to fund the particular project should all of the requirements for loan approval be met. Once the loan has been approved at Stage 3, the Agency will send to the loan applicant a conditional letter of loan commitment, stating the loan terms the Agency is offering and the conditions which must be met in order to go to loan closing. This conditional letter of loan commitment is discussed in Chapter 6, paragraph 6.21.

5.4 INVITING INITIAL APPLICATIONS

Immediately after the National Office selects NOFA responses for further processing, the Loan Originator must send initial application packages to the selected applicants. The cover letter with the initial application packages will state the amount of funds available for the loan if the application is approved.

The initial application package includes forms for the loan applicant to complete and spells out the additional information about the project that must be submitted within 60 days. The package describes the information that is required not only for Stage 2 of the process, but for Stage 3, as well. The Agency provides information about Stage 3 requirements so that applicants understand what they will be asked to submit if they advance to Stage 3. This chapter will only discuss Stage 2 requirements; **Attachment 5-A** provides a summary list of all the things that must be included in the initial application package.

A. The Cover Letter

The Loan Originator must include a cover letter to the loan package providing general information to the loan applicant. The cover letter must include the items listed in Exhibit 5-1.

Exhibit 5-1

Items to be Included in Cover Letter With the Initial Application Package

1. The amount of funds available for the loan if the application is approved.
2. A definition of a complete application. A complete application is one in which: (1) all of the information and forms requested by the initial application package are included, and (2) all of the necessary forms requested have been signed. The Loan Originator must make clear the effect of applications that are incomplete without acceptable explanation—THEY WILL BE RETURNED AND WILL NOT BE CONSIDERED DURING THE FUNDING CYCLE. The loan applicants must be informed that if they are unable to provide the necessary information, they must provide with the initial application an acceptable explanation of why the information is not available. The State Director will consider the explanation and decide whether to make an exception to the completeness rule.
3. Notice to the applicants that they must be in compliance with any other Agency-financed projects they may own or have been in compliance with a work-out agreement for at least six consecutive months as of the date the initial application is due. The letter should explain to the applicants that they need to determine their eligibility with respect to this criteria early on so that they do not expend resources developing an initial application only to learn that they are not eligible due to this factor.
4. A description of any initial concerns about the housing proposal that will have to be addressed in the initial application (e.g., the Loan Originator has determined that costs appear too high).
5. Notice to the applicants that they must submit all of the requested information within 60 days. The applicants must be warned that any late submissions will be returned and will not be considered in this funding cycle unless the State Director grants an exception due to circumstances beyond the applicants' control.
6. A warning to the applicant not to incur any costs that the Agency will not cover and caution that if the loan application is not approved, none of the costs incurred will be covered.
7. A deadline by which any applicant who plans to use other financing or funding must finalize a commitment for that financing or funding. This deadline must be far enough in advance of the national pooling date (generally 90 days beforehand).
8. An invitation to the applicant to a preliminary meeting to discuss Agency requirements. The Loan Originator must set a specific time in the near future for the meeting to take place and ask the loan applicant to respond if the time is not convenient.

Exhibit 5-1 (continued)**Items to be Included in Cover Letter
With the Initial Application Package**

9. The letter must include the following clauses:

- “The action taken herein is based upon representation made in your loan request. Any changes therein, including but not limited to changes in complex cost, size, or scope of complex, rental rates, or subsidy costs to the Agency, scope of services, sources of funds, etc., may adversely affect this decision and must be reported to and approved by the Agency in writing. Any changes not approved by the Agency will be cause for the Agency to discontinue processing your request. All applicants requesting changes will be required to give full justification for each change and, if Agency approval is not given, written reasons will be given with a 30-day negotiation period to resolve the difference.”
- “This action should not be construed as a reservation of funds, the availability of funds, or loan approval.”
- “Loan processing will continue based upon a loan not to exceed the amount specified in this notice.”
- “If a complete initial application has not been submitted to the Agency by the date specified in this notice, the Agency reserves the right to discontinue processing your loan request.”
- “You are advised against taking any actions or incurring any obligations which would either limit the range of alternatives to be considered or which would have an adverse effect on the environment. Satisfactory completion of the environmental review process in accordance with RD Instruction 1940-G, Environmental Program, must occur prior to loan approval. The issuance of this review action does not constitute site approval.”

B. Contents of the Initial Application Package

The initial application package must include the necessary forms for the applicant to complete and return and must specify the additional information required from the applicant. A list of the forms required at Stage 2 and their purpose appears in Exhibit 5-2 and the additional documentation that must be submitted by the applicant in the initial application is listed in Exhibit 5-3.

Exhibit 5-2**Items Included in the Initial Application Package**

1. *Form SF 424.2, Application for Federal Assistance.* When completed, this form provides summary information about the project and the applicant.
2. *Form RD 1924-13, Estimate and Certificate of Actual Costs.* This form provides detailed cost estimates that the Loan Originator will review to judge reasonableness.
3. *Form RD 1940-20, Request for Environmental Information.* This form requests the applicant to provide specific environmental information about the proposed project. Instructions to the applicant are part of the form. The form will be used by the Agency to help it complete an environmental review of the proposed project.

Exhibit 5-2 (continued)**Items Included in the Initial Application Package**

4. *Form RD 1930-7, Multi-Family Housing Project Budget.* This form will provide a schedule of proposed rents and utilities and anticipated operating and maintenance costs. The form will be used by the Loan Originator to conduct the project feasibility analysis and to determine whether the utility allowance is accurate.
5. *Form RD 1944-25, Request for Rental Assistance.* The loan applicant must complete this form if rental assistance is required for the project.
6. *Form RD 1944-37, Previous Participation Certification.* This document describes a loan applicant's prior involvement with federal assistance.
7. *Form RD 410-9, Statement Required by the Privacy Act* (for individuals only). This document will allow the Agency to verify information provided by a loan applicant.
8. SAUCE disk and hard copy of input forms. The data provided on this disk will allow the Agency to run cash flow projections.
9. Other items identified but not required until Stage 3 as described in Attachment 5-A to this handbook.

Exhibit 5-3**Information Requested in the Initial Application Package****A. To establish borrower eligibility:**

1. Current financial statements (within six months) with the following paragraph signed by someone with the legal authority to do so:

"I/we certify the above is a true and accurate reflection of my/our financial condition as of the date stated herein. This statement is given for the purpose of inducing the United States of America to make a loan or to enable the United States of America to make a determination of continued eligibility of the applicant for a loan as requested in the loan application of which this statement is a part."
2. A check in the amount of \$28 from all individual applicants or \$40 from all organizational applicants. This check must be made out to the United States Department of Agriculture, and is used by the Agency to pay for a credit report on the applicant.
3. Statement signed by borrower that they will pay any cost overruns.
4. Proposed limited partnership agreement and certificates of limited partners (if applicable). Agency requirements should be contained in one section of the agreement and their location identified by the applicants or their attorney in a cover sheet.
5. If a limited liability company, proposed operating agreement and the authorized agent who has the authority to complete the loan application and loan closing documents.

Exhibit 5-3 (continued)**Information Requested in the Initial Application Package**

6. If a nonprofit organization:
 - Tax-exempt ruling from the IRS designating them as a 501(c)(3) or 501(c)(4) organization. If the designation is pending, a copy of the designation request must be submitted.
 - Purpose statement, including the provision of low-income housing.
 - Evidence of organization under state and local law, or copies of pending applications.
7. If a trust, organizational documents and attorney opinion letter that the trust is validly formed and identifying the authorized representative to act on the trust's behalf.

B. To establish project feasibility:

1. Market feasibility documentation, including complete market study if required by the Agency. Exhibit 5-6 and 5-7 should be included for specific information on Agency requirements.
2. Schematic drawings
 - a. Site plan, including contour lines
 - b. Floor plan of each living unit type and other type spaces
 - c. Building exterior elevations
 - d. Typical building exterior wall section
 - e. Plot plan
3. Description and justification of related facilities, schedule of separate charges for related facilities
4. Type and method of construction (owner builder, negotiated bid, or contractor method)
5. Estimated costs (loan applicant completes *Form RD 1924-13, Estimate and Certificate of Actual Cost*)
6. SAUCE disk and hard copy
7. Statement of proposed management
8. Congregate services package/plan (if applicable)
9. Statement of support from other government services providers to the project (congregate only)
10. Response to the Uniform Relocation Assistance Act, if applicable

C. To establish project financing:

1. Statement of budget and cash flow (loan applicant completes *Form RD 1930-7, Multi-Family Housing Project Budget*), including type of utilities and utility allowance, if applicable.
2. Life cycle capital needs assessment and reserve account funding
3. SAUCE report, completed on disc and hard copy
4. Proposed construction financing (interim or multiple advances; if interim financing, letter of interest from intended lender)
5. Evidence of efforts to obtain leveraged sources, if applicable, including copies of tax credit or loan applications and grant requests
6. Congregate services charges, if applicable

Exhibit 5-3 (continued)**Information Requested in the Initial Application Package****D. To help establish environmental compliance:**

1. *Form RD 1940-20, Request for Environmental Information*, completed by the applicant.
2. Evidence of compliance with Executive Order 12372 (Intergovernmental Review), as applicable. Some states have no single point of contact for processing the SF 424.2; in others, the process may have been assumed by regional planning commissions or similar organizations.
3. Any additional forms or documentation, specific to the proposal in question, which the Agency requires from the applicant to ensure that an environmental review can be completed.
4. A Phase I Environmental Site Assessment prepared by a qualified environmental professional.
5. Compliance with historic and architectural laws, if applicable
6. Comments regarding relevant off-site conditions
7. Map showing location of support services

5.5 PRELIMINARY MEETING WITH APPLICANT

The Loan Originator invites all loan applicants to meet to discuss the loan application process and borrowers' responsibilities under the multi-family housing program. This invitation is formally extended in the cover letter with the initial application package. This meeting must take place before the initial application submission deadline and is especially important for first time loan applicants. It should take place in the Agency offices as a face-to-face meeting unless the applicant has considerable prior experience with the program, in which case the meeting may take place by telephone.

During this preliminary meeting with the applicant, the Loan Originator covers the following topics:

- Multi-family housing program requirements and application process. The Loan Originator must explain in general terms the multi-family housing program and the application process and provide the applicant with any clarifications they might request or from which they might benefit. The Loan Originator should take particular care to discuss the extent of the applicant's responsibilities for participation in the Agency's environmental review process. In addition, the key requirements of the market feasibility documentation should be discussed.
- Loan applicant's responsibilities. The Loan Originator must explain the applicant's responsibilities during the next stages of the application process. The contents of the initial application package must be reviewed and the importance of submitting a complete package by the deadline must be stressed.
- Long-term commitments. The Loan Originator must explain the applicant's long-term commitments as a borrower. First-time applicants, in particular, need to be made aware of the 30-year prepayment restriction and the reporting requirements to the Agency. This meeting is also an opportunity for the applicant to consider the level

of management required and special circumstances that might be involved in the ongoing operation of the project.

- Availability of alternative financing. The Loan Originator must ask the applicants whether they can find other financing that would result in the same affordable rents to the tenants as that provided by Agency financing. This inquiry is important because it is a statutory requirement of the program that loans be made only where alternative financing would not result in affordable rents to tenants in the market area. As a condition of loan eligibility, the Loan Originator must make a note in the running record that the applicant is unable to find financing elsewhere.

The Loan Originator must be careful to be consistent in the way these meetings with the applicants are conducted. All applicants must be provided the same information, given sufficient time to cover all issues and have all questions answered, and be treated the same way throughout the loan application process.

SECTION 2: REVIEWING THE INITIAL APPLICATION

5.6 OVERVIEW OF THE REVIEW PROCESS

The Loan Originator has 30 days following the initial application submission deadline in which to review the submitted initial applications, perform the required underwriting of the loans, and conduct site visits.

The Loan Originator may request additional supporting documentation from the loan applicant to establish feasibility but may not request information that would make an otherwise ineligible application eligible. The Loan Originator must establish a deadline by which the loan applicant must submit this information and the deadline may not cause the review process to extend beyond 45 days.

Timely review is critical at this stage because if it is determined that a proposed project is not eligible or feasible, the Loan Originator needs to inform the National Office that loan funds will not be used as expected, allowing the National Office time to redistribute funds before the end of the fiscal year.

5.7 PROCESSING INITIAL APPLICATIONS

As a first step in processing initial applications, the Loan Originator must establish that the applications are complete.

A. Establishing Completeness of Initial Application

The Loan Originator must confirm that the application includes:

- All of the forms listed in Exhibit 5-2;
- All of the information identified in Exhibit 5-3; and
- The applicant's signature on all of the required forms.

If any of these items are not included or incomplete, the loan applicant must provide acceptable explanation of why this happened. Acceptable explanations are only those that describe circumstances beyond the applicant's control. The sidebar on this page provides some examples of acceptable and unacceptable explanations. The State Director will make the final determination as to whether the explanation is acceptable and whether the completeness rule should be waived.

If during the review, the Loan Originator finds items in the initial application that require clarification, these should be noted and identified to the applicant if and when the applicant is selected to move on to Stage 3. These items must not be of a nature that would cause a project to be ineligible. For example, if a certain required partnership clause is missing from the partnership agreement, the loan applicant will be told in the conditional commitment letter to make sure the clause is inserted into the partnership agreement by a certain time. If, however, the partnership agreement is missing in its

entirety from the initial application package, the Loan Originator must give the applicant a certain date (generally five working days) by which the information is to be provided to the Agency. If the applicant does not meet that deadline and there is no acceptable explanation as to why the item is missing, the package must be considered incomplete.

B. Establishing Borrower/Project Data

When an initial loan application is reviewed, the Loan Originator must take the following steps to establish borrower/project data on AMAS, using the following screens:

- ◇ Record Application Data [M1AA];
- ◇ Record Member Organization Data [M1AM];
- ◇ Record Estimated Cost Data [M5V];
- ◇ Record Borrower Data [M5A]; and
- ◇ Record Project Data [M5B].

Accepting Explanations for Missing Information

Acceptable explanation for missing information:

- Applicant submitted a timely (i.e., immediately following receipt of notice to submit the initial application) request to another Agency for information and that Agency has not provided it by the submission deadline.
- Natural disaster.

Unacceptable explanation for missing information:

- Computer broke down.
- Key staff member unavailable to develop application.

5.8 UNDERWRITING THE PROPOSED PROJECT

Through the underwriting process, the Loan Originator evaluates an applicant's circumstances and the value of the property to determine whether making a particular loan is a prudent use of Agency funds. Underwriting also identifies factors which may affect the performance of the loan over the term or at maturity.

Underwriting has both objective and subjective elements. For example, project eligibility is an objective factor — if the project is located in a floodplain zone with no insurance, the project is not eligible and the loan applicant cannot receive a program loan. On the other hand, analyzing an applicant's financial statements and estimating the value of the property both involve some degree of judgment. The underwriter's challenge is to make both objective and subjective decisions for all applicants in a fair and impartial manner.

This section provides a broad overview of the key decisions and special considerations which the Loan Originator must make in the underwriting process. Section 3 of this chapter, Underwriting the Project, goes into further detail about loan underwriting.

A. Key Decisions

The Loan Originator must make the following key underwriting decisions in evaluating the initial application:

- Is the applicant eligible?
- Is the project eligible?
- Does the project appear economically feasible?
- Do the project costs appear reasonable?
- Do the Agency's interests appear to be secure?

These questions, when answered in the affirmative, set the standards by which loan requests are evaluated. The questions are answered by analyzing the initial application package, conducting a site visit, and completing the environmental review. The Loan Originator reviews current credit reports and organizational documents to determine if the applicant is eligible, looks at preliminary plans and cost estimates to see if the project is feasible, analyzes market feasibility documents to determine that the project is needed, conducts a site visit, and completes the appropriate level of environmental review. The Agency staff will complete a Civil Rights Impact Analysis as a further test for project eligibility.

The environmental review process is a vital part of the underwriting process and may take longer to complete than any other component of the underwriting process. Chapter 3, Property Requirements, provides further details on the environmental review process.

The Loan Originator does not have to reject an initial application that is weak in a particular area and requires some improvement. The Loan Originator must consider the results of the underwriting process as a whole to determine whether or not to move the initial application to the final application stage. However, should the results of a review show the answer to even one of the five underwriting standards mentioned above to be an unequivocal "no," meaning that the applicant cannot or will not correct the deficiency, then that initial application must be rejected.

B. Special Considerations

Certain project types require the Loan Originator to make special considerations. For example, projects with rental assistance requests and those for congregate care projects must include additional market feasibility documentation that the Loan Originator must analyze. This handbook provides information on special considerations at the following locations:

- Rental assistance requests: See paragraph 5.16 and Chapter 8, Security Requirements for additional information.

- Participation loans: See Chapter 7, Participation with Other Funding Sources.
- Special property types such as congregate and manufactured housing: See Chapter 12, Special Property Types and Section 5.9.
- Rehabilitation projects: Must meet the authorized use requirements identified in Chapter 4, Processing NOFA Responses — Stage 1.

C. Documenting Underwriting

The Loan Originator must provide documentation of the underwriting process to the loan approval official or review committee. This is the evidence of how and why the Loan Originator reached his or her decision on whether to recommend funding a loan and at what level. The loan approval official makes the final decision based on the information presented by the Loan Originator and the review committee.

5.9 INITIAL APPLICATIONS FOR SPECIAL PROPERTY TYPES

All initial applications for congregate housing, group homes, manufactured housing, and cooperative housing must be reviewed by the National Office in order to move on to the final application stage unless a state-wide exception is authorized by the Deputy Administrator, Multi-Family Housing. Since this additional step means additional time may be required to process special property type applications, Loan Originators should process any special property type applications before others. The State Director must submit to the National Office the initial application for the special property type. The application must be accompanied by the State's review comments and a written recommendation on the loan.

5.10 ORDERING THE APPRAISAL

The Loan Originator must order the appraisal as soon as the loan applicant has submitted the schematic drawings for the proposed housing. The appraisal is important because it is used to determine the maximum loan limits for the proposed project.

The appraisal may be done by an in-house Agency appraiser. In all likelihood, however, the appraisal will have to be ordered either from a list of appraisers used by the state or by sending out a bid proposal to the known appraisers in the state. Chapter 8, Security Requirements provides the specifics on ordering and reviewing appraisals. Section 3 of Chapter 3, Property Requirements provides additional guidance to appraisers regarding potential contamination from hazardous substances, hazardous wastes, and petroleum products.

5.11 COMPLETING THE INITIAL APPLICATION REVIEW

A. Notifying Loan Applicants of Their Loan Status

Following the Loan Originator's 30-day review of the initial applications, loan applicants must be informed of the status of their loans. The Loan Originator will send one of three types of letters to the applicants:

- Letter inviting final applications. These letters go to applicants whose initial applications have been determined to be eligible and feasible. Once the environmental review is complete, this letter can be a letter of conditional commitment. This letter specifies the additional information and forms required in the final application and the deadline for submission of this information. Details on the letter inviting final applications appear in Chapter 6, Processing Final Applications.
- Letter rejecting an application. These letters go to applicants whose initial applications are not eligible or feasible. Such letters will state the reason(s) for rejection and inform the applicant of their appeal rights under 7 CFR part 11.
- Letter informing of National Office review. If the initial application for a special property type is still under review at the National Office after 30 days, the applicant must be informed that the application is under review at the National Office and that the applicant will be advised of the results of the review as soon as it is completed. The National Office should take no more than 30 days to complete its review of the initial application.

B. Returning Unused Funds

The State Office must notify the National Office immediately if funds are not going to be used so that the funds can be reallocated by the National Office in a timely manner.

C. Withdrawing and Rejecting Applications

The Loan Originator must reject any initial applications that do not meet the Agency's underwriting standards for eligibility and feasibility. The letter notifying the applicant of the rejection must specify the reasons for the rejection and offer the applicant appeal rights in accordance with 7 CFR part 11.

Loan applicants may withdraw their initial applications at any time by notifying the Agency in writing.

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SECTION 3: UNDERWRITING THE LOAN REQUEST

5.12 APPLICANT ELIGIBILITY [7 CFR 3560.55]

In order to be eligible for Agency assistance, the loan applicant must meet certain eligibility requirements regarding citizenship status, organizational structure, financial ability, and, if a current or previous borrower, compliance standards.

A. Citizenship Requirements

Individual applicants and organizational applicants must provide acceptable evidence of being U.S. citizens or qualified aliens as listed in Exhibit 5-4. The Loan Originator must review the original document and make legible photocopies of both the front and back. If there is a question about the authenticity of the information provided, the Loan Originator must contact the nearest Immigration and Naturalization Service (INS) for verification. **Attachment 5-B** provides a list of the offices and addresses of the INS.

Exhibit 5-4

Acceptable Evidence of Qualified Aliens

- *Form I-551, Alien Registration Receipt Card* or prior to 1979, *Form I-151* (for permanent resident aliens).
- *Form I-94, Arrival-Departure Record*, with one of the following annotations:
 - ✓ “Admitted as Refugee Pursuant to Section 207”;
 - ✓ “Section 208” or “Asylum”;
 - ✓ “Section 243(h)” or “Deportation stayed by Attorney General”; or
 - ✓ “Paroled Pursuant to Section 212(d)(5) of the Immigration and Nationality Act (INA)” for a period of at least a year.
- If *Form I-94, Arrival-Departure Record*, is not annotated, it should be accompanied by one of the following documents:
 - ✓ A final court decision granting asylum (but only if no appeal is taken);
 - ✓ A letter from an asylum officer of the U.S. Immigration and Naturalization Service (INS) granting asylum (if application is filed on or after October 1, 1990) or from an INS district director granting asylum (if application filed before October 1, 1990);
 - ✓ A court decision granting withholding of deportation; or
 - ✓ A letter from an INS asylum officer granting withholding of deportation (if application filed on or after October 1, 1990).
- An alien who is granted conditional entry pursuant to section 203(a)(7) of the INA as in effect prior to April 1, 1980, is a qualified alien.
- A receipt issued by the INS indicating that an application for issuance of a replacement document in one of the above-listed categories has been made, and the applicant’s entitlement to the document has been verified.
- If other documents are determined by the INS to constitute acceptable evidence of eligible immigration status, they will be announced by a notice published in the Federal Register.

B. Organizational Requirements

In addition to meeting the above requirements, organizational entities have additional requirements that they must meet. Once the Loan Originator has established that the applicant entity's organizational documents appear to be in order, the Loan Originator submits the organizational documents to OGC for final verification of their acceptability.

1. *Limited Partnerships*

The Loan Originator must determine whether the organizational requirements of limited partnerships are met by analyzing the partnership agreement, certificate of limited partnership, and applicant financial statements that must have been included in the initial application to ensure that they meet the criteria identified below. The partnership agreement and certificate of limited partnership must also be forwarded to the OGC for their review.

- Partnership term. The term of the partnership must be at least equal to the term of the mortgage, that is, 30 years, or until the Agency debt is satisfied.
- Five percent general partnership interest. The terms of the limited partnership agreement must require that the general partners maintain a minimum of 5 percent financial interest in the residual or refinancing proceeds of the partnership. The general partner will not be required to have a minimum five percent interest in current profits, losses, and cash distributions of the partnership. For example, an agreement where the general partners have such a five percent interest in a limited partnership and receive only one percent of the profits while the limited partners receive 99 percent of the profits is allowable.
- Prior Agency consent. The limited partnership agreement must contain a clause that provides for obtaining prior consent from the Agency when any of the following actions are taken:
 - ◇ Withdrawing a general partner;
 - ◇ Adding a general partner;
 - ◇ Substituting or deleting a general partner;
 - ◇ Amending the limited partnership agreement or the partnership's certificate of limited partnership;
 - ◇ Selling all or substantially all of the assets of the partnership;
 - ◇ Dissolving or terminating the partnership; and
 - ◇ Borrowing funds from general partners or third parties.

- Program contribution requirements. Limited partnerships must deposit into an account the required two percent initial operating capital and the equity contribution requirement. If this has not occurred at Stage 2, the certified financial statements of the general partners must confirm that the assets of the general partners are sufficient to meet this contribution requirement. Paragraph C of this section provides further information on financial requirements.

2. *Nonprofit Organizations*

The Loan Originator must verify the status of any nonprofit organization applicants since they may have received a preference in ranking and are eligible to receive a larger loan that covers the two percent initial operating capital and the equity requirements for which other types of applicants are not eligible. Following is a description of the information that a nonprofit applicant must submit as part of the initial application and guidance to the Loan Originator in reviewing this information to establish eligibility.

- Tax-exempt ruling from the IRS designating the nonprofit as a 501(c)(3) or 501(c)(4) organization. If the designation is pending, a copy of the letter requesting the designation must be submitted. The Loan Originator must verify that the request for designation has been submitted to the IRS if the designation has not already been received.
- Purpose statement. The Loan Originator must ensure that the nonprofit organization's purpose statement includes the provision of decent housing that is affordable to low-and moderate-income persons.
- Evidence of organization under state and local law, such as articles of incorporation or copies of pending applications. The Loan Originator must ensure that these are current and match the applicant entity.
- List of Board members. The Loan Originator must verify that the loan applicant's Board reflects the demography of the community and is composed of:
 - ◇ At least one-third representatives of the low-income community;
 - ◇ No more than one-third representatives of the public sector; and
 - ◇ The composition of the remaining one-third is unrestricted.

If the Board is unable to satisfy these requirements, the nonprofit organization must provide a written explanation to the Loan Originator indicating why it is not feasible to meet these requirements. The Loan Originator will review the circumstances and the Board's explanation and determine whether the Board represents the best possible composition reflecting the community.

3. *Limited Liability Companies (LLC)*

The Loan Originator must review the limited liability company's proposed operating agreement to ensure that the following conditions are met:

- Individual members do not have the authority to act on behalf of the LLC. An authorized agent to act on the LLC's behalf to bind the LLC must be appointed.
- The management functions of the LLC are the responsibility of a member who holds at least a five percent financial interest in the LLC.
- The LLC has agreed that any new members may be brought into the organization only with prior consent of the Agency.
- The financial statement of the single member who has committed to meet the equity contribution requirements demonstrates that the person is financially able to do so.

4. *Trusts*

If the applicant entity is a trust, the Loan Originator must review:

- The trust's organizational documents to ensure that it is validly formed under federal and state law; and
- The opinion letter from the trust's attorney certifying that the trust is validly formed and identifying the representative of the trust who is authorized to act on its behalf.

C. Financial Requirements

The Loan Originator must review the individual financial statements and credit reports of the principals provided in the initial application to establish that the loan applicant is not a credit risk and has the financial ability to meet the requirements of the loan.

1. *The Credit Report*

Upon receipt of the initial application, the Loan Originator must immediately order a credit report on the individual applicant or the principals of a partnership, as appropriate.

Any indications of unacceptable credit must be explained by the applicant or the applicant must be rejected due to unacceptable credit. When this occurs, appeal rights in accordance with 7 CFR part 11 must be given. Exhibit 5-5 provides indicators of unacceptable credit.

2. *Analysis of Financial Documents*

The Loan Originator must verify that the loan applicant's financial documents show that the applicant possesses the financial capacity to carry out the obligations required for the loan. These include the following:

- With the exception of nonprofit loan applicants, the applicant is able to provide the borrower equity contribution from his or her own resources in the form of cash, land, or a combination thereof.
- For all applicants except nonprofit organizations, the applicant has or is able to obtain a minimum of two percent of the total development costs for use as initial operating capital. Nonprofit organizations may have this amount funded through the loan.

3. *Assets*

In evaluating a corporation/partnership's assets, the Loan Originator must consider the assets of each member or stockholder. The partnership must have the financial ability to meet the program financial requirements (borrower equity contribution and two percent initial operating capital); if the partnership is unable to do so at this point, the general partners must be able to meet this requirement.

Exhibit 5-5

Indicators of Unacceptable Credit

- A foreclosure that has been completed in the last 36 months.
- An outstanding Internal Revenue Service (IRS) tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.
- Outstanding collection accounts with a record of irregular payments with no satisfactory arrangement for repayment, or collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.
- Non-Agency debts written off within the last 36 months, unless the debt was paid in full at least 12 months ago.
- Agency debts that were settled within the past 36 months, or are being considered for debt settlement.
- Delinquency on a federal debt.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding or has been outstanding within the last 12 months, *except*:

When a bankruptcy occurred:

 - In which debts were discharged more than 36 months prior to the date of application;
 - Where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application; or
 - Where a judgment was satisfied more than 12 months before the date of application.

4. *Cost Overruns [7 CFR 3560.62]*

As a final financial condition, the loan applicant must provide as part of the initial application package a statement agreeing to pay cost overruns after the maximum debt limit is reached at no cost to the project, and without pledging the project as security.

D. Compliance Requirements for Current or Previous Borrowers

1. *Previous Participation Form*

As a further indication of eligibility, the applicant must submit *Form HUD 2530/RD 1944-37, Previous Participation Certification*. This form identifies any current or prior participation in federal housing projects that the applicant may have had and identifies any problems such as defaults, noncompliance, or suspensions which may have occurred. The Loan Originator must send this form to HUD for their review and comment.

The Loan Originator should also contact HUD staff directly to verify the applicant's status with HUD. If the applicant has had any problems with payment on a HUD loan or management of a HUD project, further explanation is required of the applicant. If the loan applicant is found to be in default, serious noncompliance, or suspended, the loan applicant must be rejected. In such a case, the loan applicant will be provided with appeal rights in accordance with 7 CFR part 11.

2. *Suspension or Debarment*

Individuals who are suspended, debarred, or voluntarily excluded from participation in federal programs are not eligible for assistance. Such applicants should have been rejected as a first step when the preliminary assessment of the NOFA response was made in Stage 1 (see 4.8 of Chapter 4). If applicants are found to be suspended or debarred at any stage of the process, their application must be rejected and they must be given appeal right in accordance with 7 CFR part 11.

3. *Complete Compliance or Work-Out Agreement*

The applicant must be in compliance with any existing Agency debts in all states and in accordance with all legal and regulatory requirements and agreements. If not, the applicant must have an Agency-approved work-out agreement and must have been in compliance with the provisions of the agreement for at least six months as of the date the initial application was due to the Agency. Loan Originators must telephone their Agency counterparts in other states where a loan applicant has projects to verify the applicant's status with his or her loans in those states. If the Loan Originator discovers noncompliance with the provisions of a workout agreement or that the loan applicant has been in compliance with a work-out agreement for less than six months as of the due date of the initial application, the applicant must be rejected.

4. *Compliance With Civil Rights Laws*

For a borrower entity to be considered eligible to receive new loan funds from the Agency, the following must apply:

- The applicant, including the principal partners, must be in compliance with applicable Civil Rights laws in all projects where they are either a borrower or principal partner. For a borrower to be considered in noncompliance with Civil Rights laws for loan eligibility purposes, the borrower's project must be coded on MFIS as being in non-monetary default. In accordance with Agency policy a nonmonetary default on MFIS when the Servicing Office has notified the borrower of a violation using the three servicing letter process, and the borrower has not addressed the violation to the satisfaction of the Servicing Office within 60 days of the first servicing letter.
- For a borrower to be considered eligible to receive rehabilitation or equity funds, the project to be funded must either be in compliance, or be brought into compliance with applicable Civil Rights laws or physical accessibility standards with the receipt of loan funds.

5.13 **PROJECT ELIGIBILITY [7 CFR 3560.58 and 7 CFR 3560.59]**

During Stage 1 of the origination process, the Loan Originator assessed the preliminary eligibility of the project by determining that the project is located in a designated place, will be completed for an authorized purpose, and that the applicant shows true evidence of site control. The underwriting now goes a step further when the Loan Originator ensures that the applicant has submitted adequate documentation to show that the project meets all applicable site and design requirements.

A. The Site Review

During the site review, the Loan Originator and other Agency staff actually look at the site to establish eligibility, consider the environmental issues, and perform a civil rights impact analysis. In conducting the site review, the Loan Originator must make sure that the proposed project meets the environmental and site criteria of an Agency-funded project as described in Chapter 3, Property Requirements. **Attachment 5-C** provides a checklist that can be used to evaluate a site.

The site review is conducted as soon as possible after the housing proposal has been selected to move on to the initial application stage. The site review is conducted to determine that there are no eligibility issues that might prohibit a project from going forward. The major feasibility considerations are enumerated in Chapter 3, Property Requirements and are:

- Environmental factors;
- Costs of site development; and
- Location.

The Loan Originator must solicit the input of the State Architect or State Engineer, and the State Environmental Coordinator regarding the site and if possible, these individuals should participate in the physical site review. If a site does not meet the standards set forth by the Agency and described in Chapter 3, Property Requirements, the initial application must be rejected. **Attachment 5-C** provides a Site Evaluation Checklist that can be used as an aid in reviewing the site. A Transaction Screen Questionnaire, available through the State Environmental Coordinator, can be completed by Agency staff during the site review to alert them to any contamination issues about which they should be aware.

B. Environmental Review

Form RD 1940-20, Request for Environmental Information, completed by the applicant, provides specific environmental information about the proposed project. To begin preparation of the Agency's environmental review, the Loan Originator reviews the information provided with *Form 1940-20, Request for Environmental Information* and conducts a site visit to gather additional information. The Transaction Screen Questionnaire may be used during the site visit to help the Loan Originator identify potential contamination of the site from hazardous substances, hazardous wastes, or petroleum products. Chapter 3, Property Requirements provides additional information on environmental requirements.

C. Civil Rights Impact Analysis

The Agency conducts civil rights impact analyses to determine whether proposed actions will negatively and disproportionately affect minorities, women, or persons with disabilities, who are employees, program beneficiaries, or applicants for employment or program benefits in USDA-conducted or assisted programs, by virtue of their race, color, sex, national origin, religion, age, disability, or marital or familial status. At the time of the site visit, a trained staff member completes *Form RD 2006-38, Civil Rights Impact Analysis Certification*. The State Civil Rights Coordinator and, as necessary, the State Environmental Coordinator, are consulted if problems are noted. RD Instruction 2006-P, Civil Rights Impact Analysis provides further guidance on these requirements.

D. Working with the State Historic Preservation Office (SHPO)

Loan applicants must work with the State Historic Preservation Office (SHPO) to determine the site's and/or building's archeological or historical significance. Refer to RD Instruction 1940-G, Environmental Program for further information.

E. Flood Hazard Determination

At this time, the Loan Originator must complete *FEMA Form 81-93, Standard Flood Hazard Determination*. This form documents whether or not the site is in a Special Flood Hazard Area (SFHA) identified by FEMA and, if so, states the availability of flood insurance for this property through FEMA's National Flood Insurance Program (NFIP). Property in a SFHA is not eligible for federal financial assistance unless flood insurance

is purchased through the NFIP. The information regarding floodplains on this form will assist in the preparation of the environmental review document.

F. Design Review

The Loan Originator must submit all project plans and drawings to the State Architect/Engineer who will make sure that the design is modest and meets program requirements. Paragraph 5.17 provides further details on the role of the State Architect.

G. Prohibited Conditions

In accordance with 7 CFR 3560.57(d), the Loan Originator must at this point confirm that no conditions that would prohibit the Agency from processing the loan request have developed in the area in which the project is being located. The existence of the following conditions would result in an application being rejected:

- The Agency has selected another multi-family housing proposal in the designated place for processing. An exception may be made to this when a group home is being proposed for persons with disabilities in an area where the existing multi-family housing is insufficient or unavailable for their needs or where there is a need for additional multi-family housing and the housing proposed would provide a different type of housing than that already selected.
- A previously funded Agency, HUD, low-income housing tax credit or other similar assisted multi-family housing in the designated place has not been completed or has not reached projected occupancy level.
- Existing assisted multi-family housing in the designated place is experiencing high vacancy levels. High vacancy is considered to be five percent or higher. If a State wishes to apply a different standard for high vacancy rates, that standard must be published in a State notice.
- A special note rate rent or other loan servicing tool is pending or in effect for other assisted housing in the designated place; or
- The need in the market area is for additional rental assistance and not for additional units.

The Loan Originator must confirm that none of the above conditions exist by checking with the HUD area office, State Agencies, and the local servicing office.

5.14 PROJECT FEASIBILITY

Project feasibility is determined by:

- Feasibility of security as evidenced by an appraisal that shows the Agency's lien position is secure.

- Market feasibility as evidenced by specified data on the market that show a clear need and demand for the proposed units; and
- Financial feasibility as evidenced by anticipated project income being sufficient to meet projected costs.

A. Feasibility of Agency's Security

The Agency conducts an appraisal to establish whether the Agency's loan will be secured by the real estate to be developed. If the appraisal shows the project to be of lower value than the total development cost and therefore does not support the Agency's lien position, the Agency must inform the applicants that they must reduce their costs or find the funds to make up the difference between the appraised value and the total development cost. Chapter 8, Security Requirements, provides additional details on appraisals and establishing security.

B. Market Feasibility

The loan applicant must provide market feasibility documentation that shows that the need and demand in the market area in which a project is located is greatest for the proposed type of multi-family housing (i.e., elderly or family) and unit mix of bedroom sizes. The market area is considered to be the community in which a project is to be located and only those outlying rural areas that will be affected by the project (excluding all other established communities). Except in specific cases of congregate housing projects where an expanded market may be justified, the market area will not include the entire county (or parish, township, or other similar subdivision).

The project type, the number of units, and the unit mix must be based on the housing need and demand from eligible prospective tenants who are permanent residents of the community. The market feasibility documentation must be based on information obtained from current census reports and other reliable sources such as state or county data centers, individual employers, local realtors, public housing agencies, and chambers of commerce.

1. Market Survey or Market Study?

Market feasibility documentation will consist of a professional market study for projects of 12 units or more.

The State Director may authorize a market survey, which is a less formal analysis, to document market feasibility in the following circumstances:

- There is an overwhelming market demand evidenced by waiting lists and a housing shortage confirmed by local housing agencies and realtors; or
- For projects of less than 12 units.

Market surveys can be prepared through the use of telephone inquiries, mailed or door-to-door surveys, and interviews, but, like a market study, must include a site visit by the applicant or their representative.

2. *Evidence of Reliable Markets*

In looking at the market feasibility documentation, the Loan Originator must be able to answer the following questions in the affirmative in order to conclude that there is a reliable market for the project:

- Is there a demand in the area? For example, do other multi-family housing projects in the area have waiting lists with names of people who are currently interested or have recently applied for housing, and are vacancy rates low?
- Is the greatest demand for the type of housing project proposed (i.e., family or elderly)?
- Does the market finding confirm the proposed unit mix of bedroom sizes?
- Is the vacancy rate of units in comparable housing within the state's acceptable range?

3. *Requirements of Market Feasibility Documentation*

The market feasibility documentation for both market surveys and market studies must clearly show that the following requirements have been met or it will be rejected as unacceptable and the initial application will be rejected.

- Site visit. The results of the survey or study must be based on the analyst's visit to the site and interviews with knowledgeable members of the community. There must be a list of names of people interviewed with a brief description of their qualifications as knowledgeable community members and a summary of the comments they made.
- Conventional rents for comparable units. The analyst must address the Agency-established conventional rents for comparable units and how they compare with the proposed unit rents for other housing projects in the immediate area. Chapter 3, Property Requirements, of this handbook provides further guidance on conventional rents for comparable units.
- Single family housing. A discussion of the existing housing supply must include reference to the single family housing rental and sale units available.

Market Study Methodology

- Mathematical calculations must not be expressed in percentages alone, but must be backed up by the actual numbers that resulted in those percentages.
- Source references must be identified for each table or section of the market study.
- A brief statement of the methodology used in the study must be included.

- Low income housing tax credits. If the applicant is requesting low income housing tax credits (LIHTC), the market feasibility documentation must provide the number of LIHTC units and the maximum LIHTC incomes and rents by unit size. If rental assistance is not being requested for use in the project, the study must show that there are tax credit eligible households that could pay the rent without rental assistance.
- Eligible Permanent Residents. Since the intent of the multi-family housing program is to provide housing for the eligible permanent residents of the community, temporary residents of a community, such as college students, military personnel, or others not claiming their current residence as their legal domicile, may not be included in determining need and project size.
- Homeowners. The market feasibility documentation must include a discussion of the current market for single family houses and how sales, or the lack of sales, will affect the demand for elderly rental units. The market study may discuss how elderly homeowners may reinforce the need for rental housing, but only as a secondary market and not as the primary market.
- Justification for the Type of Project, Number of Units, and Unit Mix. The type of complex (family, elderly, etc.) that is proposed by the applicant must reflect the greater proportionate need and demand of the community. The share or percentage of the community's total rental units that are designated for the elderly (62 years or older, or disabled) will be compared to the community's share of elderly households, and the share of total rental units for families will be compared to the share of family households in the community. For mixed projects, the unit mix must reflect the proportionate need of each household type.
 - ◇ In unusual circumstances, where there is a compelling need for a project type that does not represent the greater proportionate need (i.e., family versus elderly need), the State Director may consider granting an exception to this requirement. At least one of the following conditions must be met in order to consider an exception:
 - ◆ The community's or state's housing plan indicates that the greater immediate need is for the complex type of the smaller proportionate need, and the plan includes a specific proposal to address the housing needs of the other household type;
 - ◆ The complex has the support of a public community forum represented by diverse interests; or
 - ◆ The units are needed due to an emergency or hardship situation, for example, a loss of housing caused by a natural disaster. The circumstances for the exception must be documented in the case file.
 - ◇ The market feasibility documentation must address the need for more than just one and two bedroom units. The bedroom mix of the proposed units must be

proportional to the need in the market area based on renter household size and the bedroom mix of existing units. In addition, the bedroom mix of fully accessible units (i.e., the five percent of units which must be accessible to persons with disabilities in accordance with 7 CFR 3560.59[d]) must be comparable to the bedroom mix of non-accessible units.

- Items Covered in Market Surveys. All market surveys must include those items listed in Exhibit 5-6 and a signed statement by the preparer indicating that:
 - ◇ the information presented is accurate to the best of the preparer's knowledge;
 - ◇ reliable sources were used to collect the information and data presented; and
 - ◇ a site visit was made by the preparer or their representative.
- Items Covered in Market Studies. Market studies must include those items listed in Exhibit 5-7, a table of contents, and the following:
 - ◇ the analyst's statement of qualifications;
 - ◇ certification as to the accuracy of the study;
 - ◇ certification that the analyst visited the site; and
 - ◇ affirmation that the analyst will not receive any fees that are contingent upon approval of the project by the Agency; and certification that the analyst will have no interest in the project.

Attachment 5-D, Analyzing the Feasibility Documentation, provides guidance on verifying that the market study shows these requirements are met.

Exhibit 5-6
Required Contents of a Market Survey

1. A complete description of the proposed site, and a map showing the site, location of services, and their distances from the site.
2. Names and qualifications of members of the community interviewed during the site visit and a discussion of their comments.
3. Major employers in the area and year established.
4. Employment opportunities and rates for the area for the past five years.
5. Services available in the area, including shopping, schools, and medical facilities as well as community services such as recreational, transportation, and day care that are available.
6. Population by year, plus the annual increase or decrease for the past five years.
7. Population characteristics by age.
8. Number of households by year, and number of persons per household for the past five years.
9. Historical breakdown of households by owners and renters.
10. Households by income groups.
11. A survey of existing or proposed rental housing, including: complex name, location, number of units, bedroom mix, family or elderly type, year built, rent charges, vacancies, waiting lists, amenities, and the availability of RA or other tenant subsidies.
12. Available mobile homes, if part of housing stock.
13. The existing vacancy rate of all available rental units in the community, including houses.
14. Proportionate need for project type.
15. Building permits issued per year for the last three years for single and multiple unit dwellings.
16. For proposals where the applicant is requesting low income housing tax credits (LIHTC), the number of LIHTC units and the maximum LIHTC incomes and rents by unit size. This information will determine the levels of incomes in the market area which will support the basic rents while also qualifying the borrower for tax credits.
17. The amount of RA necessary to ensure the project's success.

Exhibit 5-7**Required Contents of a Market Study (continued)**

1. All of the items required for a market survey (see Exhibit 5-6).
2. Major employment data including: the name, location, and date of establishment of any major employers within the community; the product or service of each employer, the number of employees, and salary range for each employer, and business permits issued.
3. Housing stock as defined by total number of units: one unit buildings, two or more unit buildings, mobile homes, and the number of these lacking some, or all, plumbing facilities (substandard housing).
4. Number of rent overburdened households.
5. An expanded analysis of existing vacancy rates for all available rental units in the community, including mobile homes. The analysis must make a distinction between “owned properties,” and “available for rent,” and “for sale-not available for rent” as well as available apartments and other rental units.
6. Population characteristics by age.
7. A projection of housing demand based on:
 - (a) Household growth.
 - (b) Units constructed since the last census.
 - (c) Number of owned and rented units.
 - (d) Number of replacements.
 - (e) Number of households in the eligible income range.

C. Financial Feasibility

The Loan Originator must analyze sources and uses of funds identified in the initial application in order to make the following determinations:

- The income (i.e., rent stream) in a proposed project matches up with anticipated debt service and costs.
- The proposed project costs are reasonable. If too high, the loan applicant may be including unnecessary or ineligible items and the project becomes unaffordable. If too low, the low costs might be due to inferior quality materials and could create deferred maintenance problems later on. Paragraph 5.17 provides further details on project costs and Chapter 3, General Project Management and Financial Operations of the Asset Management Handbook provides guidance on analyzing a budget.
- The availability of any proposed leveraged funds is realistic.
- The Agency will not be providing excess assistance to the project. This is determined by conducting a subsidy layering review at this stage, and then again at Stage 3 of the

loan origination process. Section 5.15 provides details on the subsidy layering review process.

- Construction financing has been arranged.

1. Will Project Income Cover Expenses?

The Loan Originator must review several items in the initial application to assess adequacy of project income and acceptable expenses.

The Sources and Uses Comprehensive Evaluation (SAUCE). The SAUCE program is the primary tool available to the Loan Originator to analyze the sources of funds and their uses in development to ensure the requested loan is not more than is necessary. The program can also analyze the financial viability of a project by performing subsidy layering reviews, gap analyses, and evaluations of the project's 15-year cash flow projections.

The loan applicant will have received as part of the initial application package a copy of a SAUCE disk that includes forms the applicant must complete in order for the SAUCE program to be run. Some of these forms, such as *Form RD 1930-7, Multi-Family Housing Project Budget* and *Form RD 1924-13, Estimate and Certificate of Actual Cost* are also provided to the loan applicant in paper form. The borrower may return the SAUCE information by completing the paper forms generated by SAUCE (duplicate forms need not be provided) and should also return the disk with the information on it. If the borrower does the latter, it makes it very simple for the Loan Originator to use the data to test various options.

The Project Budget. The primary document available to the Loan Originator that provides information to determine project feasibility is the project budget, *Form RD 1930-7, Multi-Family Housing Project Budget*. If the loan applicant has also provided this form on the SAUCE disk, the Loan Originator can test "what if" scenarios to see how income and cost streams are going to work in the project in 15-year projections.

The operating budget must show a schedule of proposed rental rates for the first year and a typical year's operation. The first year covers the period from the date of the loan closing, up to the end of the first year's operation. This first year's budget must show that the applicant has sufficient operating capital on hand to pay all operating costs and meet scheduled loan payments during the construction period and prior to occupancy. A typical year's budget must show that once the project is fully operational, there is sufficient income to pay all operating costs, make loan payments, and accumulate reserves.

The first year budget may include an allowance of up to 10 percent for vacancies, nonpayment of rent, and contingency expenses for a new housing project. This allowance can be adjusted for future budgets based on past project history. The budget must also provide for accumulating a reserve equal to what the life cycle capital needs analysis shows will be necessary (see discussion below). All real estate taxes, utility

costs, and other operating expenses must be identified. The Loan Originator must carefully review **Attachment 5-E** to establish that utility allowances and projected utility costs are reasonable.

2. Is the Contribution to the Reserve Account Appropriate and Adequate?

The loan applicant's architect must include as part of the Stage 2 application submission a life cycle capital needs assessment and recommendation for annual contribution to the reserve. The Loan Originator must send this analysis to the state architect/engineer for review.

The life cycle cost analysis will be reviewed to determine if the recommended reserves are sufficient to cover the expected needs without driving project rents above conventional rents for comparable units. Chapter 3, General Project Management and Financial Operations of the Asset Management Handbook provides further details.

Annual contributions to the reserve will be at a minimum of one percent of the total development cost and no more than the higher of the required amount as shown by the life cycle cost analysis or that which brings rents up to the conventional rents for comparable units. The aggregate fully funded reserve amount must equal at least 10 percent of the greater of the total development cost or appraised value. If the reserve contribution at one percent of total development cost results in rents that are above the CRCU and the applicant is unable to modify the proposal to meet the minimum reserve requirement without exceeding CRCU, the project must be rejected as infeasible.

3. Are Rents Reasonable?

The Loan Originator must confirm that basic rents are not in excess of conventional rents for comparable units (CRCU) in the area. If they are, the project must be rejected as infeasible. Chapter 3, Property Requirements provides details on establishing CRCU.

Rents for a project must be proportionate, based on square footage. **Attachment 5-F** provides an example of how to establish whether or not rents are proportionate.

4. Is the Project Assured of Receiving Proposed Leveraged Funds?

The Loan Originator will have already given the applicants a deadline by which they must obtain a commitment of leveraged funds. If this deadline falls within Stage 2 and the leveraged funds have not been committed by this date, the Loan Originator must contact the other funding source(s) to inquire as to the status of the funds. If the Loan Originator is informed that funding is not likely to be made within the time period necessary to allow processing, and the loan applicants are unable to provide the necessary funding from their own or other resources at this time, the initial application will be rejected and the Loan Originator will notify the National Office of the availability of unallocated funds. The Loan Originator should verify with any other financing or funding sources any information the applicants provide regarding the status of such funds and also begin to work with any other lender(s) to develop the participation, or

intercreditor agreement. Chapter 7, Participation with Other Funding Sources, provides additional guidance on working with other funding sources.

5. Has Construction Financing Been Arranged?

Loan applicants must describe in their initial application how they will finance the construction of the project and if using interim financing, the applicants must include in their initial application a letter of intent or a letter of interest from the interim lender that the applicants intend to use. The Agency requires the loan applicant to seek interim financing for any construction that will require more than one payment. Interim financing from an interim lender is the preferred method of construction because it minimizes the administrative burden to the Agency.

When interim financing is unavailable at reasonable rates from another lender and multiple advances are assessed to be in the best interest of the Government and are necessary to make the project feasible, the Agency may agree to provide multiple advances for construction financing.

When interim financing is used, the loan applicant must include in their final application a copy of the interim lender's commitment letter with evidence of the lender's license to do business in the state. The borrower entity or its IOI entities may not provide interim financing to its own project.

When multiple advances are used, the following requirements apply to protect the Agency's investment during the construction process:

- The Agency will provide financing at the market interest rate during construction. The borrower receives no interest credit until the construction is completed and the Agency loan has been closed.
- The Agency will withhold a percentage of the loan from the general contractor until construction is complete in accordance with the contract.

5.15 SUBSIDY LAYERING [7 3560.62(c)]

The Agency has an obligation under law to make sure that the total funds provided to any project by all sources do not exceed the minimum amount necessary to make the project feasible. The SAUCE software program allows the Loan Originator to perform the necessary analysis to ensure that the Agency is not providing excess subsidy.

A. Fee Norms

1. Acceptable Fee Norms

In evaluating the amount of financing that is necessary for a project, the Loan Originator must use the following fee norms:

- Builder's profit. Up to 10 percent of the construction contract.

- General overhead. Up to 4 percent of the construction contract.
- General requirements. Up to 7 percent of the construction contract.
- Developer's fee. Up to 15 percent of the total development costs for tax credit purposes for new construction and rehabilitation costs; up to 8 percent of the acquisition costs only for the acquisition rehabilitation costs.

These fee norms may differ if the State agency allocating low-income housing tax credits and the Agency have agreed to different levels in the Memorandum of Understanding (MOU). (Chapter 7, Participation with Other Funding Sources provides details on the MOU.) However, in no case may the builder's profit, general overhead, and general requirements total more than 21 percent of the construction contract.

In cases where there is no MOU with the State authority that allocates low-income housing tax credits, the above fee norms, or those used by the State, whichever are less, will be used in analyzing the amount of subsidy proposed for the project.

2. Deviation from Fee Norms

Any deviation in the MOU over the 21 percent cap for builder's profit, general overhead, and general requirements, or over the developer's fee norm on new construction or acquisition cost must be submitted by the State Director to the National Office with justification and documentation for the Administrator's review and concurrence. The Administrator will consider:

- An explanation of the data being used to justify the deviation;
- The applicability of the deviation, i.e., to the entire jurisdiction, or for specific markets, or for project types within a jurisdiction;
- Sources of conventional development information which support the deviation;
- The position of the State agency on the requested deviation;
- The effect of not granting the deviation; and
- The history of rental housing development in rural areas and developer's fee levels and effect of developer's fees on development in the rural area of the state.

3. Review of Norms

The Loan Originator must review the fee norms:

- Annually, if there is no MOU in place with the State agency allocating the low income housing tax credit; or

- As needed if there is an MOU in place with the State agency allocating the low income housing tax credit.

B. Excess Assistance

The Agency defines excess assistance to a project as allowable sources exceeding allowable uses by more than \$25,000. In all cases where the results of the analysis indicate that there will be excess assistance, the Loan Originator must consult with the applicant as well as the State agency and reach an agreement for reducing the excess assistance by taking one of the following actions:

- Reduce the number of tax credit units requested;
- Reduce the level of assistance provided by one or more of the sources of funds;
- For participation loans, revise the uses to include additional costs that enhance the project, are allowed by participating partners, are consistent with the intent of the multi-family housing program, and will assist the resident population being served by the housing; or
- As a last resort, reduce the amount of equity contribution through the reduction of the loan amount. If the loan amount is reduced, the Loan Originator must provide the loan applicant with formal notification and inform the State agency and the National Office.

5.16 INITIAL APPLICATIONS WITH RENTAL SUBSIDY

Special consideration must be given to initial applications that include rental subsidy.

A. Agency-Funded Rental Assistance

Initial applications that include a request for Agency rental assistance must include market documentation that shows the need for such subsidy. The number of rental assistance units requested must be based on the market feasibility documentation, the proposed rental rates as reflected in the budget for the project, and the income levels of the prospective tenants.

B. Non-Agency Rental Subsidy

If non-Agency rental subsidy is to be provided with the project, the requirements of Chapter 7, Rental Subsidies, in the Asset Management Handbook must be met.

As evidence of market feasibility for projects that are expected to use rental subsidy from sources other than the Agency, applicants are required to demonstrate that:

- The assistance will be provided for the term of the loan;

- A market exists for persons and families eligible for the assistance (the amount of rental subsidy to be provided must be considered when determining the number of families that would be income-eligible for the project); and
- During the term of the rental subsidy contract, the provider will make available the amounts required at least annually.

5.17 PROJECT COSTS

The Loan Originator must establish that the project meets economical development requirements and project costs are reasonable. Operating costs and debt service and the contribution to reserves must equate to rents that are at or below conventional rents for comparable units in the area, or the application must be rejected. Preliminary plans must be in conformance with Agency goals to contain costs without jeopardizing quality and causing increased maintenance in the long term. The initial application must also show that maximum consideration has been given to energy conservation. Loan Originators should refer to Section 4 of Chapter 3, Property Requirements for additional guidance in evaluating project costs. Other technical resources, within the Agency, such as the State Architect/Engineer or construction analyst, may assist the Loan Originator in making these determinations.

A. The State Architect's Role

The Loan Originator must submit all project plans and drawings, as well as *Form RD 1924-13, Estimate and Certificate of Actual Cost*, and the life cycle cost analysis to the State Architect/Engineer. The State Architect will:

- Complete an evaluation of a project's preliminary plans and specifications and an evaluation of proposed construction costs. During this evaluation, the architect will compare a loan applicant's proposed construction costs to similar costs in the same geographic area and make a determination as to whether the proposed costs are reasonable.
- Consult with the State Environmental Coordinator and Loan Originator if either of them sees issues of environmental concern.
- Review the life cycle cost analysis to make sure that economical development costs are being proposed.
- Send a written evaluation of the project to the loan applicant, with a copy to the Loan Originator for the case file.

B. Cost Databases

There are several databases available to Agency staff that are useful in determining reasonable construction costs. Exhibit 5-8 provides a brief explanation of these databases and how they can be used to assist in the underwriting process and in establishing reasonableness of cost.

Exhibit 5-8**Tools Available to Assist in Underwriting**

NAME	FUNCTION	LOCATION
Marshall & Swift System 84 (New Construction)	PC based construction cost database with information by zip code used to evaluate new construction costs.	The Agency Appraiser or the Agency Architect should have this program. It may be shared without restriction.
ACCUPRO	PC based construction cost database with information by zip code used to evaluate rehabilitation costs.	The Agency Appraiser or the Agency Architect should have this program. It may be shared without restriction.
SAUCE	PC based (EXCEL spreadsheet) underwriting tool used to evaluate the sources and uses of funds proposed for a project.	The State Office Specialist or Multifamily Housing Coordinator has this disk. The program should be shared with developers and State housing finance agencies.
AMAS	A data base that contains construction cost information on all projects financed by the Agency	Each field office has on-line access through the Finance Office. Contact AMAS Coordinator. Cost data may be used for analysis by Agency staff.
FOCUS	A database extracted from information stored in AMAS, which can be used to create reports. There are also several menu driven reports for multi-family housing.	Each field office has on-line access to FOCUS.

C. Acceptable Legal Costs

Loan applicants must have written contracts for any legal services that are to be paid for out of loan funds. This does not include the services provided by a title company. The Loan Originator must review these contracts to ensure that:

- All costs are for an authorized purpose;
- All costs are reasonable; and
- All costs match estimates.

See the sidebar for a list of authorized and prohibited legal costs.

Authorized legal costs include:

- Organizational costs for nonprofit applicants
- Owners and Mortgage Title Insurance premiums
- Escrow fees
- Appropriate attorney fees for loan closing
- Recording fees
- Construction contract reviews
- UCC opinion
- Interim loan closing costs
- Waiver of mineral lease ownership
- Review of lease and certification that it meets the law

Prohibited legal costs include:

- Services related to developing a loan application, except in the case of a nonprofit applicant
- Services related to getting land zoned
- Tax credit consultation

D. Unacceptable Costs

The results of these analyses can be used by the Loan Originator to talk with the loan applicant about any unacceptable proposed construction costs. Unacceptable costs may be costs that are too high, or those that are too low. Projects must not come in using materials that are below average quality as defined by Marshall & Swift; doing so is likely to lead to long-term maintenance problems.

5.18 ADEQUATE SECURITY

The Loan Originator must not recommend for funding any loan applications that do not have adequate security. Security is determined by an appraisal, which the Loan Originator must order as one of the first steps in Stage 3 of the loan origination process, the final application stage. Chapter 8, Security Requirements covers security requirements in detail.

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ATTACHMENT 5-A

CONTENTS OF INITIAL APPLICATION PACKAGE

Stage 2 Forms to be Included in Initial Application Package

- A. *Form SF 424.2, Application for Federal Assistance* (When completed, this form provides the summary information about the project and the applicant.)
- B. *Form RD 1940-20, Request for Environmental Information*
- C. *Form RD 1930-7, Multi-Family Housing Project Budget*
- D. *Form RD 1944-37, Previous Participation Certification*
- E. *Form RD 1924-13, Estimate and Certificate of Actual Cost*
- F. *Form RD 410-9, Statement Required by the Privacy Act* (for individuals only)

Stage 2 Information Requested in Initial Application Package

- I. To establish borrower eligibility:
 - A. Current (within 6 months) financial statements with the following paragraph certified by someone with the legal authority to do so:

“I/we certify the above is a true and accurate reflection of my/our financial condition as of the date stated herein. This statement is given for the purpose of inducing the United States of America to make a loan or to enable the United States of America to make a determination of continued eligibility of the applicant for a loan as requested in the loan application of which this statement is a part.”
 - B. Check for \$28 from individual applicants and \$40 from organizational applicants made out to United States Department of Agriculture. This will be used to pay for credit reports obtained by the Agency.
 - C. Statements signed by borrowers that they will pay any cost overruns
 - D. Proposed limited partnership agreement and certificates of limited partners, if applicable. (Agency requirements should be contained in one section of the agreement and their location identified by the applicants or their attorney in a cover sheet.)
 - E. If a nonprofit organization:
 - 1. Tax-exempt ruling from the IRS designating them as a 501(c)(3) or 501(c)(4) organization. If the designation is pending, a copy of the designation request must be submitted

2. Purpose statement, including the provision of low income housing
 3. Evidence of organization under state and local law, or copies of pending applications
 4. List of Board members
- F. If a limited liability company, proposed operating agreement and the authorized agent who has the authority to complete the loan application and loan closing documents
- G. If a trust, organizational documents and attorney opinion letter that the trust is validly formed and identifying the authorized representative to act on the trust's behalf
- II. To establish project feasibility:
- A. Market feasibility documentation: Either a market study or a market survey, as appropriate
 - B. Type of project and structures proposed (total number of units by bedroom size, size of each unit type, size and type of other facilities)
 - C. Schematic drawings
 1. Site plan, including contour lines
 2. Floor plan of each living unit type and other spaces, such as laundry facilities, community rooms, stairwells, etc.
 3. Building exterior elevations
 4. Typical building exterior wall section
 5. Plot plan
 - D. Description and justification of related facilities, schedule of separate charges for related facilities
 - E. Type and method of construction (owner builder, negotiated bid, or contractor method)
 - F. Estimated costs (loan applicant completes *Form 1924-13, Estimate and Certificate of Actual Cost*)
 - G. Sources and Uses Comprehensive Evaluation (SAUCE) disk and hard copy of the input report
 - H. Statement of proposed management
 - I. Congregate services package/plan (if applicable)

- J. Statement of support from other government services providers to the project (congregate only)
- K. Response to the Uniform Relocation Assistance Act (if applicable)
- III. To establish project financing:
 - A. Statement of budget and cash flow (loan applicant completes *Form RD 1930-7, Multi-Family Housing Project Budget*), including type of utilities and utility allowance, if applicable and contribution to reserves
 - B. Life cycle cost analysis
 - C. SAUCE report (loan applicant should resubmit disc and provide hard copy of report)
 - D. Congregate services charges (if applicable)
 - E. Status of efforts to obtain leveraged funds
 - F. Proposed construction financing (interim or multiple advance; if interim financing, letter of interest from intended lender)
- IV. To understand environmental and site information:
 - A. Environmental information (loan applicant completes *Form RD 1940-20, Request for Environmental Information*)
 - B. Evidence of compliance with Executive Order 12372 (A-95) (if applicable) *Form SF 424.2* is sent to a clearinghouse for intergovernmental review
 - C. Phase I due diligence (Environmental Site Assessment; See Chapter 3, Property Requirements)
 - D. Map showing location of support services
 - E. Evidence of submission of project description to SHPO with request for comments
 - F. Comments regarding relevant off-site conditions

Stage 3 Forms and List of Necessary Information Provided to Applicant in Initial Application Package But Not Due Until Stage 3

- A. *Form RD 1924-13, Estimate and Certificate of Actual Costs*
- B. *Form HUD-935.2, Affirmative Fair Housing Marketing Plan*
- C. *Form RD 1944-30, Identity of Interest Disclosure*

- D. *Form RD 1944-31, Identity of Interest Qualification Certification*
- E. *Form RD 1910-11, Applicant Certification, Federal Collection Policies for Consumer or Commercial Debts*
- F. *Management Certification Form*
- G. *Management Profile Form*
- H. *Form AD 1047, Certificate Regarding Debarment*
- I. *Form 400-1, Equal Opportunity Agreement*
- J. *Form 400-4, Assurance Agreement*
- K. Guide 1 of RD Instruction 1924-A, Planning and Performing Construction and Other Development, Contract Documents
- L. Exhibit C of RD Instruction 1924-A, Planning and Performing Construction and Other Development, Guide for Drawings and Specifications
- M. Final plans/construction documents as listed in Guide 1 of RD Instruction 1924-A, Planning and Performing Construction and Other Development.
- N. Agreements/Documents: Architectural/Engineering, Legal
- O. State or local approvals (zoning, utilities)
- P. Confirmation of SHPO evaluation and comments
- Q. Preliminary title report
- R. Management plan with attachments
- S. Relocation plan (if relevant)
- T. Schedule of charges for nonshelter services (congregate)
- U. Services agreement (congregate)
- V. Executed copy of a limited equity agreement (RCH; **Attachment 12-E**)
- W. Completed subscription agreement (RCH; **Attachment 12-I**)
- X. Disclosure of any change in financing

- Y. Detailed operating budget showing a typical year's operation (as shown on *Form RD 1930-7, Multi-Family Housing Project Budget*), the first year's budget (also on *Form RD 1930-7, Multi-Family Housing Project Budget*) and use of two percent initial operating capital
- Z. Description of construction financing, including interim lender's commitment letter with evidence of license to do business in state
- AA. Land survey
- BB. Final organizational documents or Certificate of Good Standing, if existing organization
- CC. Attorney's opinion letter that entity is in conformance with program requirements

ATTACHMENT 5-B

**ADDRESSES OF IMMIGRATION AND
NATURALIZATION SERVICE OFFICES**

ATTACHMENT 5-C

SITE EVALUATION CHECKLIST

DATE OF REVIEW: _____ REVIEWED BY: _____

PROJECT: _____

LOCATION: _____

INTENDED USE: ELDERLY _____ FAMILY _____ CONGREGATE _____ GROUP HOME _____
OFF-FARM LABOR HOUSING _____

PRESENT USE OF SITE: _____

REVIEWER'S DETERMINATION OF HIGHEST AND BEST USE OF SITE:

RELOCATION REQUIRED: YES: _____ NO: _____ IF YES, TYPE _____ FAMILY
_____ BUSINESS

DIMENSIONS _____ AREA _____ SQ. FT. OR ACRES

ZONING (classification, uses, and densities permitted) _____

SITE IMPROVEMENTS:	_____ Public Water	_____ Private Well	_____ Public Sewer
	_____ Septic Tank	_____ Storm Sewer	_____ Sidewalk
	_____ Curb	_____ Gutters	_____ Alley
	_____ Street Lights	_____ Electricity	_____ Gas
	_____ Underground Electricity & Telephone		

PRESENT IMPROVEMENTS _____ DO _____ DO NOT CONFORM TO ZONING REGULATIONS

ACCESS BY: _____ Public Street _____ Private Road _____ Surface Street

MAINTAINED BY: _____ Municipality _____ Private Association (attach summary of association documents)

INGRESS AND EGRESS (adequacy and safety) _____

TOPOGRAPHY, VIEW AMENITY, LOT DRAINAGE, FLOOD CONDITION, SLOPES, ETC.:

Lot sketch showing lot dimensions, distance to nearest corner, and the location of any detrimental conditions:

EASEMENTS OR ENCROACHMENTS ON-SITE AND OFF-SITE (if any): _____

IS THE PROPERTY LOCATED WITHIN AN IDENTIFIED FLOOD HAZARD AREA? _____

FAVORABLE OR UNFAVORABLE CONDITIONS NOT MENTIONED ABOVE INCLUDING ANY
NONCONFORMING USE(S) OF PRESENT IMPROVEMENTS: _____

CONTIGUOUS LAND USE (Not Zoning)

NORTH: _____

SOUTH: _____

EAST: _____

WEST: _____

(NOTE: IF RESIDENTIAL UNITS, SPECIFY APPROXIMATE AGE, COST, ETC.)

SHOPPING

1. FOOD:

A. Type: Full Service _____ Convenience _____

B. Distance: Full Service _____ (Miles/Blocks)

Convenience _____ (Miles/Blocks)

C. Sidewalks to shopping: Yes _____ No _____

D. Controlled Intersections: Yes _____ No _____

E. Excessive grades to food shopping: Yes _____ No _____

2. MAJOR:

A. Type: Mall _____ CBD _____ Strip _____ Other _____

B. Specify types of stores, etc. _____

C. Distance _____ (Miles/Blocks)

D. Sidewalks to shopping: Yes _____ No _____

E. Controlled Intersection: Yes _____ No _____

F. Excessive grades to major shopping: Yes _____ No _____

SCHOOLS (Family Projects Only)

1. Distance:

A. Elementary: _____ (Miles/Blocks) Name: _____

B. Middle: _____ (Miles/Blocks) Name: _____

C. Sr. High: _____ (Miles/Blocks) Name: _____

2. If within walking distance, is the route safe (i.e., sidewalks, controlled intersections, etc.)? Yes _____ No _____

If no, please explain: _____

3. If schools are not within safe walking distance, is school bus transportation available?

A. Elementary: Yes _____ No _____

B. Middle: Yes _____ No _____

C. Sr. High: Yes _____ No _____

TRANSPORTATION (PUBLIC)

1. Is public transportation available? Yes _____ No _____

2. If yes, distance from site: _____ (Miles/Blocks)

3. Must excessive grades be traversed to reach public transportation? Yes _____ No _____

4. Destinations of public transportation (check all that apply):

Food shopping _____

Medical facilities _____

Convenience shopping _____

Religious institutions _____

Other shopping _____

Recreational facilities _____

Recreational Facilities Available

1. _____ 2. _____
3. _____ 4. _____

Medical Facilities Available

1. _____ 2. _____
3. _____ 4. _____

Religious Institutions Available

1. Name: _____ Distance: _____ (Miles/Blocks)
2. Name: _____ Distance: _____ (Miles/Blocks)
3. Name: _____ Distance: _____ (Miles/Blocks)

DOES THE SITE ISOLATE THE ELDERLY? Yes _____ No _____

Adverse Environmental Conditions

1. Excessive Noise: Yes _____ No _____; Cause: _____
2. P. O. L. Storage: Yes _____ No _____; Distance: _____
3. R.R. Tracks: Yes _____ No _____; Distance: _____
4. Highway: Yes _____ No _____; Distance: _____
5. Manufacturing: Yes _____ No _____
6. Substandard Dwelling Units: Yes _____ No _____

Does the site have good visibility from major roadway? Yes _____ No _____

Is the site located in an area of minority concentration? Yes _____ No _____

Is the site located in an area of high concentration of subsidized housing? Yes _____ No _____

If yes, specify type: _____

Does the site have residential character? Yes _____ No _____

Comments: _____

Recommendation: Accept site _____ Reject site _____

If rejection, reasons why: _____

ATTACHMENT 5-D

ANALYZING THE MARKET FEASIBILITY DOCUMENTATION

This checklist is an aid to the Loan Originator in understanding the market feasibility documentation. It is designed so that if all items are checked off, the Loan Originator should be confident that the market feasibility documentation was prepared properly and that there is a need and demand for the housing proposed.

PART I: Required Elements of Market Feasibility Documentation

Complete Information:

1. _____ The MFD includes all of the information as required by Exhibits 5-6 and 5-7.

Site and Services:

2. _____ Services available in the area include shopping, schools, and medical facilities as well as community services such as recreational, transportation, and day care. Services appear to be appropriate for the project type and within reasonable proximity of the site.

Viability of the Community:

3. _____ Building permits issued during the past three years and new employment opportunities show the community to be growing, rather than declining.
4. _____ Major employers in the area provide employment opportunities sufficient to support a population base of renters for the proposed project.
5. _____ Employment rates for the area have been high over the past five years.

Realistic Recommendations:

6. _____ The analyst makes realistic recommendations supported by the statistical information provided:
 - _____ Population characteristics and household data for the community are stable or show an increase during the past five years.
 - _____ Population characteristics by age shows support for the type of project being proposed and the type of complex proposed reflects the greater proportionate need and demand of the community. To establish this, compare the share or percentage of the community's total rental units that are designated for the elderly (62 years or older or disabled) to the community's share of elderly households, and the share of total rental units for families to the share of family households in the community. For mixed projects, the unit mix must reflect the proportionate need of each household type.

- _____ Statistical data showing households by income group shows there are households in the eligible income group that could rent in the project.
- _____ Historical breakdown of households by owners and renters shows there is a tradition of renters.
- _____ The MFD addresses the need for more than just one and two bedroom units.
- _____ The bedroom mix of the proposed units is proportional to the need in the market area based on renter household size and the bedroom mix of existing units.
- _____ The bedroom mix of fully accessible units (five percent) is comparable to the bedroom mix of non-accessible units.

Housing Demand:

- 7. _____ The MFD shows evidence of need for the housing in that there are rent overburdened households and/or households in substandard housing.
- 8. _____ A discussion of existing housing supply includes reference to the single family housing rental and sale units available and shows these to be inadequate.
- 9. _____ Temporary residents of a community, including college students, military personnel, or others not claiming their current residence as their legal domicile, have not been included in determining need and project size.
- 10. _____ The MFD includes a discussion on the current market for single family houses and how sales, or the lack of sales, will affect the demand for elderly rental units. If the market study discusses how elderly homeowners reinforce the need for rental housing, it does so only as a secondary market and not as the primary market.
- 11. _____ The vacancy rates in existing rental housing, including available single family housing and mobile homes, is five percent (or the State approved vacancy standard, if different) or less, or there is an acceptable explanation where higher rates occur. Existing rental complexes should also show waiting lists.

Conventional Rents for Comparable Units:

- 12. _____ The CRCU shown is less than or equal to the rents proposed for the project.

Low Income Housing Tax Credit:

- 13. _____ For proposals where the applicant is requesting low income housing tax credits (LIHTC), the number of LIHTC units and the maximum LIHTC incomes and rents by unit size is provided. Statistical data provided show that there are households in the tax credit eligible income group to rent in the project. If not, rental assistance is requested.

Rental Assistance:

14. _____ The MFD makes clear the amount of RA that is necessary to ensure the project's success.

COMMENTS ON MISSING OR INCOMPLETE ITEMS:

PART II: Certifications

For both surveys and studies, the analyst certifies that:

- _____ The information presented is accurate to the best of the preparer's knowledge;
- _____ Reliable sources were used to collect the information and data presented (for a study, the analyst has included a statement of qualifications); and
- _____ A site visit was made by the preparer or their representative.

For studies, the analyst also certifies that:

- _____ The analyst will not receive any fees that are contingent upon approval of the project by the Agency; and
- _____ The analyst will have no interest in the project.

COMMENTS ON MISSING OR INCOMPLETE ITEMS:

Part III: Methodology for Market Studies

- _____ A brief statement of the methodology used in the study has been included.
- _____ All mathematical calculations are expressed in actual numbers, including percentages.
- _____ Source references are identified for each table or section of the market study.

COMMENTS ON MISSING OR INCOMPLETE ITEMS:

ATTACHMENT 5-E
HOUSING ALLOWANCES FOR UTILITIES AND
OTHER PUBLIC SERVICES

(Old Exhibit A-6 to 1944-E; to be updated and provided by RHS)

ATTACHMENT 5-F

**EXAMPLE OF INTEREST CREDIT DETERMINATION
FOR RURAL RENTAL HOUSING**

(Old Exhibit H-1 to 1930-C; to be updated and provided by RHS)